

MINUTES



To: Board Members
From: Kapko (ext. 317)
Subject: Minutes of the November 10, 2004 FVM Board Meeting **Date:** November 16, 2004
cc: Bielstein, L. Smith, Petrone, Fair Value Team, Revenue Recognition Team, Business Combinations Team, Gerard, Lott, Swift, Polley, Gabriele, Getz, Thompson, Mahoney, Leisenring (IASB), J. Paul (IASB), G. Ryltsova (IASB), P. Martin (CICA), FASB Intranet

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Statement or Interpretation.

Topic: Significant issues raised by respondents to the proposed FASB Statement, *Fair Value Measurements*, including issues relating to the relevance and reliability of fair value measurements, Appendix A and its interaction with FASB Concepts Statement No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements*, and the definition of fair value and its application to liabilities.

Basis for Discussion: Memorandums 1–3 dated October 28, 2004, and audience handout (attached)

Length of Discussion: 9:00 a.m. to 11:00 a.m.

Attendance:

Board members present: Batavick, Crooch, Herz, Schieneman, Schipper, Seidman, and Trott
Board members absent: None
Staff in charge of topic: MacDonald
Other staff at Board table: Bielstein, Munro, Pinson, Kapko, T. Johnson and E. Smith
Outside participants: Leisenring (IASB)

Summary of Decisions Reached:

The Board discussed significant issues raised by respondents to the proposed FASB Statement, *Fair Value Measurements*, including issues of relevance and reliability related to fair value measurements, as a basis for deciding whether to proceed with its plans to issue a final Statement. The Board decided to proceed with its plans to issue a final Statement to provide needed guidance for applying the fair value measurement requirements of existing pronouncements. The Board plans to discuss issues of relevance and reliability raised by respondents in its conceptual framework improvements project.

The Board discussed the interaction of a final Statement (in particular, Appendix A) and FASB Concepts Statement No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements*. The Board decided to include Appendix A in the final Statement, but only with respect to its application guidance for using present value techniques to estimate fair value. The Board decided to revise that guidance to clarify that the estimate should include an adjustment for risk if the amount is significant, identifiable, and measurable. At a future meeting, the Board will consider the need to further clarify that guidance and revise Concepts Statement 7.

The Board discussed the definition of fair value and its application to liabilities. The Board decided to revise the definition to refer (1) to liabilities as being settled (not exchanged) and (2) to a liability as being settled when the reporting entity (obligor) is no longer obligated to perform, encompassing within the definition a transfer or legal layoff notion for liabilities, subject to discussion at a future meeting of the effect of applying the definition of fair value, as revised, under existing pronouncements that require fair value measurements for liabilities. The Board also affirmed the concept included in footnote 4 of the proposed FVM Statement that for liabilities, estimates of fair value should consider the effect of an entity's credit standing, but did not reach a decision on whether to include that concept in a final Statement. The Board plans to consider that issue at a future meeting, focusing on the effect of applying that concept under existing pronouncements that require fair value remeasurements for liabilities.

The Board clarified that the “current” transaction in the definition of fair value does not refer to a forced or liquidation transaction at the specified measurement date; rather, it refers to an orderly transaction at the specified measurement date (that is, a transaction that occurs at the specified measurement date assuming a period that is usual and customary for transactions involving such assets or liabilities, allowing for adequate exposure to the market prior to that date), and that reflects market conditions existing at the specified measurement date. Also, the specified measurement date is the “effective” valuation date.

As a basis for applying the definition of fair value, the Board decided to incorporate in the final Statement a reference market notion that would apply broadly to all estimates of fair value. The reference market is the market in which the asset (or liability) being measured could be exchanged (or settled), thereby representing the market that an entity looks to as a basis for selecting the inputs used in the estimate. The Board generally agreed that the entity should have the ability to currently access that market in order to use some (or all) of the inputs in that market in the estimate. The Board plans to further consider the access requirement for reference markets at a future meeting, focusing on possible reference markets for performance obligations.

Objective of Meeting:

The objective of the meeting was to discuss (1) whether to proceed with plans to issue a final Statement and, if so, issues related to the interaction of a final Statement (Appendix A) and Concepts Statement 7 and (2) the definition of fair value and its application to liabilities.

Matters Discussed and Decisions Reached:

1. Issuance of Final FVM Statement

1. Ms. MacDonald opened the meeting, explaining that as a preliminary matter, the staff seeks the Board’s view on whether to proceed toward issuance of a final FVM Statement (within Level A GAAP), considering significant issues raised by respondents to the Exposure Draft, in particular, issues related to the relevance and reliability of fair value measurements.

2. Ms. MacDonald said that in view of the Board's plans to address those issues in its conceptual framework improvements project, the staff recommends that the Board proceed with its plans to issue a final FVM Statement within Level A GAAP to provide the needed guidance in applying existing pronouncements with fair value measurement requirements.

3. All Board members agreed with that staff's recommendation.

4. Ms. Seidman emphasized that the final Statement would provide guidance for how, not when, to measure fair value and, even then, only under existing pronouncements in which the Board has concluded on the relevance and reliability of the measurement.

5. Mr. Crooch said that the proposed FVM Statement is needed because the Board should not explain how to measure fair value in each and every Statement that requires a fair value measurement.

6. Mr. Trott referred to the IASB's plans to issue, in its business combinations project, a fair value hierarchy Statement including some, but not all, aspects of the FASB's proposed FVM Statement. He said that while it is important that the Board proceed with its plans to issue a final Statement, in the interest of convergence, the Board should consider at a future date whether and, if so, how to coordinate its efforts with those of the IASB.

2. Final FVM Statement (Appendix A) and Concepts Statement 7

7. Ms. MacDonald said that the next issue considers the interaction between a final FVM Statement (Appendix A) and Concepts Statement 7.

8. Ms. MacDonald explained that with respect to Appendix A, many respondents indicated that it is an improvement over Concepts Statement 7. At the same time, however, they indicated that the Board should provide more "how to" guidance so that the appendix can be generally understood and consistently applied within Level A GAAP. She further explained that with respect to Concepts Statement 7, some respondents indicated that the guidance in Appendix A, as clarified, should remain in the Concepts Statements. In any

event, respondents indicated that Concepts Statement 7 should be revised to reflect the clarifications included in Appendix A.

9. Ms. MacDonald said that in that regard, the staff observes that the objective of the Concepts Statement 7 “initiative” in this project was to merely clarify the guidance for using present value techniques. She explained that because that objective would be achieved whether or not the guidance, as clarified, is included in Appendix A or in a revised Concepts Statement 7, the staff initially communicated its view that the Board should remove Appendix A from a final FVM Statement and revise Concepts Statement 7 to preserve the clarifications included in Appendix A, largely in response to respondents’ comments. However, based on the discussion at the education meeting, the staff understands that such an approach might complicate matters in the conceptual framework improvements project. In particular, the application guidance might stand out from the other more conceptual guidance (as clarified in paragraphs A1–A19), if (and when) the Concepts Statements are consolidated into one.

10. Ms. MacDonald said that, largely for that reason, the staff recommends an alternative approach that would retain Appendix A—but only with respect to its application guidance, as clarified, thereby eliminating the immediate need to revise Concepts Statement 7 in the FVM project. With respect to the more conceptual guidance specific to liabilities in paragraphs A20–A28, the staff recommends that the Board keep that guidance in Concepts Statement 7. Issue 3 considers the need to clarify and incorporate aspects of that guidance elsewhere within the proposed FVM Statement.

11. Mr. Batavick, Mr. Herz, Ms. Seidman, Ms. Schipper, and Mr. Trott, agreed with the staff’s recommendation to retain Appendix A and its application guidance for using present value techniques in paragraphs A1–A19, and to consider at a future meeting the need to revise Concepts Statement 7.

12. Ms. Seidman expressed concerns about creating conflicts between Level A GAAP and the Concepts Statements. Other Board members agreed. They asked the staff to consider, jointly with the staff working on the conceptual

framework improvements project, ways to deal with those conflicts. In that regard, Mr. Herz suggested including in Concepts Statement 7 a reference to Appendix A of the final FVM Statement, pending revisions in the conceptual framework improvements project.

13. Mr. Scheineman said that he would prefer removing Appendix A from the final FVM Statement and improve Concepts Statement 7, referring to the concerns expressed by respondents about the guidance contained in that appendix (relating to both assets and liabilities).

Related Issues

14. Ms. MacDonald said that some respondents raised related issues in the context of the conforming amendments in Appendix D of the proposed FVM Statement.

Adjustment for Risk

15. Ms. MacDonald said that the first issue is whether and, if so, when a default of no risk adjustment (in a fair value estimate) is appropriate. She explained that respondents said that the related guidance in paragraph A5 is ambiguous in that regard. In particular, paragraph A5 does not include the corresponding guidance in paragraph 62 of Concepts Statement 7, which indicates that a risk adjustment is required if the amount is “significant, identifiable, and measurable.” Paragraph A5 also does not reflect the Board’s conclusion discussed in the basis for conclusions that “the degree of difficulty in determining the appropriate risk adjustment, alone, is not sufficient basis on which to allow a default of no risk adjustment.”

16. Ms. MacDonald said that to clarify that issue, the staff recommends the Board revise paragraph A5 to reinstate the corresponding guidance in paragraph 62 of Concepts Statement 7 and incorporate the Board’s earlier conclusion in that regard. She added that, as previously discussed with the Board (when considering that issue earlier), the staff does not believe the final FVM Statement should allow an explicit default of no-risk adjustment. Like other inputs used in estimates of fair value, determining the appropriate risk adjustment requires

varying degrees of judgment depending on whether the risk premium is significant and the extent to which it is observable and measurable. While in some cases the appropriate risk premium may be difficult to determine, the degree of difficulty alone is not sufficient basis on which to allow a default of no-risk adjustment.

17. All Board members agreed with that staff's recommendation.

Interpretation 46(R)

18. Ms. MacDonald said that the second issue relates to FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities*, and its reference to the guidance in Concepts Statement 7 for using an expected present value technique to calculate expected losses/variability.

19. Ms. MacDonald explained that some respondents said that in view of the clarifications to that guidance included in Appendix A, the Board should amend Interpretation 46(R) to clarify the application of that guidance (in particular, the use of risk-free rates versus risk-adjusted rates) in calculating expected losses/variability. She said that because the guidance in Concepts Statement 7 is not used for purposes of fair value measurement, the staff believes the requested clarification referred to by respondents is beyond the scope of the proposed FVM Statement.

20. All Board members agreed with the staff. Ms. Seidman suggested that the staff consider amending Interpretation 46(R) to refer to the guidance in Appendix A, depending on the Board's decision on whether and, if so, when to revise Concepts Statement 7.

3. Definition of Fair Value

21. Ms. MacDonald said that Issue 3 relates to aspects of the definition of fair value in paragraph 4, and the clarifying guidance in paragraph 5, of the proposed FVM Statement.

Current Transaction

22. Ms. MacDonald said that some respondents specified that the Board should clarify the “current” transaction required by the definition to better communicate the information that a fair value measurement is intended to convey. She said that to clarify that matter, the staff recommends the Board revise the definition to clarify that a current transaction refers to an orderly transaction at the specified measurement date, that is, one occurring within a period that is usual and customary for transactions involving such assets or liabilities, allowing adequate exposure to the market prior to that date. Also, in response to other related comments, the staff further recommends that the Board clarify that for financial reporting purposes, the specified measurement date is the effective valuation date.

23. All Board members agreed with that staff’s recommendation, subject to clarifications.

24. Mr. Trott suggested that the proposed FVM Statement explicitly state that a current transaction is not a forced or liquidation transaction.

25. Ms. Schipper clarified that in the definition, *current* means a value that is reflective of economic (market) conditions existing at the specified measurement date as opposed to an optimal trade date.

26. Ms. Seidman cautioned against language in the proposed FVM Statement that could be misinterpreted to change existing practice with respect to trading and settlement dates for financial instruments.

Reference Markets

27. Ms. MacDonald said that in view of related comments, the staff recommends the Board incorporate a reference market principle that would apply for all estimates, especially in view of the Board’s discussions of reference markets for performance obligations in the revenue recognition project. She said that a broadened reference market principle would:

- Describe the reference market as the market in which the asset or liability being measured could be exchanged, thereby representing the market the entity looks to as a basis for selecting the relevant inputs used for the measurement.
- Emphasize the requirement that when a market for the asset (or liability) being measured exists, an entity must have the *ability* to access that market currently (that is, within a period that is usual and customary for transactions involving such assets or liabilities)—thereby conveying the requirement for a “current” transaction, as clarified in the definition.
- Clarify that when a market for the asset (or liability) being measured does not exist (that is, is not observable), all available evidence from various market (and other) sources should be considered to, in effect, construct a “hypothetical” reference market for that asset (or liability).

28. All Board members generally agreed with the staff’s recommendation, subject to further discussion at a future meeting.

29. Mr. Herz stated that he is uncomfortable referring to a “hypothetical” reference market because he does not think that such a market is sufficiently reliable for a fair value estimate, especially if the related inputs are entity inputs (certain Level 3 estimates, as currently defined in the proposed FVM Statement). He said the use of entity inputs suggests a measurement that represents the present value of the related cash flows that is not fair value.

30. Ms. Schipper disagreed. She said the reference market is a construct, not a physical place or activity, and she is comfortable incorporating that construct within the fair value framework.

31. Ms. Seidman emphasized that when prices in the reference market are used for a fair value estimate, an entity should have the ability to currently access that market. She suggested the staff develop additional clarification in that regard (focusing on “ability”).

32. Other Board members agreed. Mr. Trott suggested that as a basis for considering that additional clarification, the staff apply the reference market principle to some of the examples previously considered by the Board in the revenue recognition project, which consider possible reference markets for performance obligations. Mr. Leisenring further suggested that the staff consider

the “ability” to access a reference market in situations in which an entity must incur significant costs in order to access that market.

Exchange Notion for Liabilities

33. Ms. MacDonald said that several respondents generally agreed with the exchange price notion in the definition of fair value. However, at least one respondent pointed out that in contrast to assets, liabilities are not exchanged; they are settled or transferred, suggesting that the Board revise the definition of fair value accordingly.

34. Ms. MacDonald said that the staff agrees with those respondents. A revised definition of fair value would conform more closely to the guidance in paragraph 75 of Concepts Statement 7 (and the related discussion in paragraphs A20 and A21 of Appendix A).

35. Ms. MacDonald said that in the staff’s view, that guidance in Concepts Statement 7 indicates that the *settlement* notion for liabilities should be considered in the context of the reporting entity, specifying that a “settlement” occurs when the reporting entity, itself, is no longer obligated to perform (in effect, becomes “de-obligated”), either because it performs, settling the obligation directly with the holder, or because it transfers the obligation to a willing third party of comparable credit standing. That guidance also indicates that application of the fair value measurement objective for liabilities should not result in different fair value measurements for the same liability; rather, different fair value measurements indicate different liabilities. Accordingly, it is important to clearly define the liability being measured (the “what”) and the appropriate reference market or markets as a basis for applying the definition of fair value to liabilities. How the liability being measured will be settled depends on the underlying obligation and how a reporting entity (marketplace participant) would be expected to settle the liability in the normal course, assuming rational economic behavior—that is, whether by delivery of cash or goods or services.

36. Ms. MacDonald said that the staff recommends revising the definition of fair value to (1) specifically refer to liabilities and (2) clarify within the final FVM

Statement the application of the revised definition to liabilities, emphasizing that a settlement should be considered in the context of the reporting entity, as indicated in Concepts Statement 7.

37. All Board members generally agreed with the staff's recommendation, subject to further discussion at a future Board meeting.

38. Mr. Trott emphasized that because a final Statement would apply broadly, it should be understandable with respect to liabilities.

39. Ms. Seidman said that while she agreed that the definition should be revised to include a settlement notion for liabilities, the settlement notion described by the staff would incorporate within the definition a transfer or "legal layoff" notion for liabilities. In that regard, she expressed concerns about possible conflicts within existing GAAP, where a similar settlement notion is not explicitly required and may not otherwise be applied under pronouncements that require fair value measurements for liabilities. By way of example, she referred to FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. She pointed out that while it refers to Concepts Statement 7, it does not incorporate the settlement notion described by the staff. In particular, paragraph 9(b) requires that the initial fair value estimate for the liability recognized at the inception of the guarantee be measured using the premium that would be required by the guarantor to issue the same guarantee in a standalone arm's-length transaction with an unrelated party. Application of the settlement notion described by the staff could result in a different fair value measurement than that required.

40. Mr. Trott explained that in Interpretation 45, the premium was used as a practical expedient. Ms. Seidman said that while that may be the case, Interpretation 45 does not describe its fair value measurement in that context. She suggested that the staff consider the implications of incorporating the settlement notion referred to under other pronouncements that require fair value measurements for liabilities. All other Board members agreed.

Liability Remeasurements and Credit Standing

41. Ms. MacDonald said that perhaps the most significant issue with respect to liabilities raised by respondents relates to footnote 4 to paragraph 5, which would include within the proposed FVM Statement the credit standing concept in Concepts Statement 7, thereby elevating that concept to Level A GAAP. In Concepts Statement 7, the Board concluded that “[t]he most relevant measure of a liability always reflects the credit standing of the entity obligated to pay” (paragraph 78).

42. Ms. MacDonald said that while many respondents agreed with that concept for initial fair value measurements, they did not similarly agree for fair value remeasurements. They said that conceptually, the effect of changes in an entity’s credit standing should be considered in all fair value measurements, but expressed concerns focusing on the relevance of the resulting measurements, especially in situations in which the entity (issuer) does not have the ability to realize the effect. Some of those respondents also expressed related concerns about the counterintuitive accounting results (that is, gains for credit downgrades and losses for credit upgrades) and the change to practice that would result (at least for some trading liabilities) by including the credit standing concept within the proposed FVM Statement.

43. The staff initially communicated a view that the Board should retain footnote 4, largely because in Concepts Statement 7 the Board considered concerns similar to those raised by respondents.

44. However, based on the discussion at the education meeting, the staff understands that at least some Board members share respondents’ concerns. Further, issues raised in other projects suggest that the effect of including changes in credit standing in liability measurements might differ depending on the type of liability being measured (for example, the effect might be more significant for debt instruments than for performance obligations).

45. Ms. MacDonald said that if, in considering all related issues, the Board believes that a reconsideration of the credit standing concept in Concepts

Statement 7 is necessary, the staff suggests the Board undertake that reconsideration separately, not as part of these redeliberations. She said the staff believes that a reconsideration of the credit standing concept, at this time and in this FVM project, would require extended discussion and debate beyond the scope of this phase of the project. As a practical matter, the Board could remove footnote 4 from the proposed FVM Statement and separately consider the application of that concept to specific types of liabilities on a project-by-project basis.

46. Mr. Leisenring said he understands that some constituents might not want to include credit standing when remeasuring liabilities, but to characterize the resulting measurement (which would not consider credit standing) as a fair value measurement is incorrect. He said that a measurement that does not consider credit standing is something other than fair value.

47. Mr. Trott agreed. However, in view of concerns expressed by respondents, Mr. Trott said that, as a practical matter, the Board could exclude from the scope of the proposed FVM Statement credit standing issues related to liability remeasurements in order to expedite the Statement and make other needed improvements to financial reporting.

48. Mr. Schieneman agreed. Mr. Herz did not. He said that credit standing is an essential component of a fair value measurement. He continued that to the extent the Board decides in individual projects to exclude credit standing from a fair value measurement, then it is not a fair value measurement (it is fair value less credit). He concluded that as a basis for considering those issues on a project-by-project basis, the definition of fair value in a Statement that focuses on fair value should include the credit standing concept.

49. Ms. Seidman suggested that the staff consider an approach for resolving with the credit standing issue similar to the approach agreed to by the Board with respect to the risk premium issue, another essential component of a fair value measurement (Issue 2(b) of the audience handout). She said a similar approach could mitigate some of the implementation concerns about credit risk.

50. The Board affirmed the credit standing concept included in footnote 4 of the proposed FVM Statement, but did not reach a decision on whether to include that concept in a final Statement. The Board asked the staff to assess the effect of applying that concept under existing pronouncements that require fair value remeasurements for liabilities for discussion at a future meeting.

“Knowledgeable,” “Unrelated,” and Willing Parties

51. The last issue that Ms. MacDonald addressed related to the need to clarify the willing parties within the definition of fair value, focusing on the condition of “knowledgeable.” In that regard, some respondents referred to issues of information asymmetry in situations in which the parties on both sides of a transaction do not have access to the same information. They asked the Board to clarify whether the parties are, in fact, presumed to have the same information.

52. Ms. MacDonald said that the proposed FVM Statement indicates that conceptually, the parties on both sides of a transaction are presumed to have the same information. The clarifying guidance within paragraph 5 specifically refers to knowledgeable, unrelated, and willing parties as marketplace participants having a “common level” of understanding. To further clarify that matter, the staff recommends that the Board refer to a “common level” of understanding based on information that is publicly available in the marketplace.

53. All Board members agreed with that staff’s recommendation, subject to clarification.

54. Ms. Seidman clarified that because one party to a transaction might obtain information through due diligence efforts, the knowledgeable criterion should not be limited to information that is publicly available, since a rational business person would be expected to do further research before entering into a transaction. Mr. Leisenring questioned the need to retain the knowledgeable criterion, noting that the presumption underlying the definition of fair value is one of rational economic behavior.

Follow-up Items:

55. The Board asked the staff to consider the following for discussion at a future meeting:

- Clarifications to the reference market principle, focusing on the “ability to access” requirement. In that regard, the Board suggested the staff consider the application of that principle to some of the examples previously considered by the Board in the revenue recognition project, which consider possible reference markets for performance obligations.
- The implications of applying a settlement (layoff) notion for liabilities under pronouncements that require fair value measurements for liabilities.
- The implications of considering the effect of an entity’s credit standing under pronouncements that require fair value remeasurements for liabilities.

General Announcements:

None.

Board Meeting Handout
FAIR VALUE MEASUREMENT PROJECT
November 10, 2004

At the November 10, 2004 meeting, the Board will begin redeliberations of the proposed FASB Statement, *Fair Value Measurements* (FVM), considering issues raised by respondents in comment letters and at the September 21, 2004, public roundtable discussion.

1. Issuance of Final FVM Statement

The Board will discuss whether to issue a final FVM Statement, considering significant issues raised by respondents on the proposed FVM Statement, in particular, issues of relevance and reliability, and the interaction of a final FVM Statement with the proposed fair value hierarchy Statement that the IASB plans to issue in its business combinations project.

2. FVM Statement and Concepts Statement 7

Appendix A of the proposed FVM Statement incorporates and clarifies certain aspects of the guidance for using present value techniques to estimate fair value in FASB Concepts Statement No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements*, thereby elevating that guidance to Level A GAAP. In response to issues raised by respondents, the Board will discuss the following:

- a. Whether to retain Appendix A and, if so, whether to include the “application guidance,” as clarified in paragraphs A1–A19 (which applies broadly) as well as the related “conceptual guidance” in paragraphs A20–A28 (which is specific to liabilities). A related issue is whether to revise Concepts Statement 7.
- b. Whether to revise the guidance in paragraph A5 of Appendix A to further clarify whether and, if so, when a default of no risk adjustment is appropriate in estimating fair value under FASB Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, (and other pronouncements), considering the related guidance in paragraph A5 and in paragraph 62 of Concepts Statement 7, together with the Board’s conclusion in developing the proposed FVM Statement that the degree of difficulty in determining the appropriate risk adjustment, alone, is not sufficient basis on which to allow a default of no risk adjustment.
- c. Whether to amend FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, to clarify the application of the guidance for using present value techniques to estimate fair value in Concepts Statement 7, as clarified in Appendix A, in calculating expected losses/variability.

3. Definition of Fair Value

In the proposed FVM Statement, paragraph 4 defines fair value as, "...the price at which an asset or liability could be exchanged in a current transaction between knowledgeable, unrelated willing parties." Paragraph 5 provides clarifying guidance focusing on certain aspects of the definition. In response to issues raised by respondents, the Board will discuss the following:

- a. Whether and, if so, how to clarify the "current" transaction referred to in the definition.
- b. Whether to extend to all estimates a reference market principle similar to that proposed for Level 1 estimates. That reference market principle would:
 - (1) Describe the reference market as the market in which the asset or liability being measured could be exchanged, thereby representing the market the entity looks to as a basis for selecting the relevant inputs used for the measurement.
 - (2) Emphasize the requirement that an entity have the "ability" to currently access that market (conveying the requirement for a "current" transaction, as referred to in the definition).
 - (3) Clarify that in the absence of an observable reference market for the asset or liability being measured, all available evidence from various sources should be considered in selecting the relevant inputs used for the measurement.
- c. Whether to revise the definition of fair value to refer to liabilities as being settled (versus exchanged). If so, a related issue is whether to provide additional clarifying guidance within the proposed FVM Statement, considering the guidance in paragraph 75 of Concepts Statement 7 and paragraphs A20 and A21 of Appendix A. That guidance would:

- (1) Clarify a “settlement” in the context of the reporting entity (obligor), specifying that a “settlement” occurs when the reporting entity is no longer obligated to perform—either because it performs, thereby settling the obligation directly with the holder (“settlement” notion) or because it transfers the obligation to a willing third party of comparable credit standing (“transfer” or “legal layoff” notion), in other words, the reporting entity becomes “de-obligated.”
- (2) Clarify that the application of the fair value measurement objective for liabilities in the context of the reporting entity (obligor) depends on the underlying obligation and how a reporting entity (marketplace participant) would be expected to settle the liability, as clarified, assuming rational economic behavior.
- (3) Emphasize that application of the fair value measurement objective for liabilities cannot result in different “fair values” for the *same* liability.
- d. Whether to retain footnote 4 to paragraph 5 of the proposed FVM Statement, thereby elevating to Level A GAAP the credit standing concept in Concepts Statement 7 for fair value measurements of liabilities (at initial recognition and remeasurements in subsequent periods).
- e. Whether to clarify “knowledgeable” and “unrelated” in the context of the willing parties referred to in the definition of fair value.